
**All of the pieces are in place for a period of sustained earnings growth. Customer-driven strategies delivered a strong increase in profitability in 1988.**

# Corporate Profile

Dayton Hudson Corporation is a growth company focusing exclusively on retailing. At year-end, the Corporation operated 618 stores in 37 states.

Dayton Hudson's strategy is to provide exceptional value to the American consumer through multiple retail formats. Operations are conducted by four business segments:

- **Target** is an upscale discount store chain operating 341 stores in 27 states. Target offers low prices on a broad assortment of high-quality fashion and basic hardlines and softgoods in easy-to-shop, self-service stores.
- **Mervyn's** is a highly promotional, popular-priced, value-oriented department store company operating 213 stores in 14 states. Mervyn's stores feature nationally branded and private label apparel, accessories and household softgoods.
- **Dayton Hudson Department Store Company** (DHDSC) emphasizes fashion leadership, quality merchandise, broad selections and superior customer service. DHDSC operates 37 Hudson's and Dayton's stores in seven states.
- **Lechmere** is a hardlines retail company operating 27 stores in nine states. Lechmere stores offer products from four distinct areas of merchandise: consumer electronics, major appliances, housewares and leisure-time equipment.

## Contents



## About the Cover

Target customers expect a shopping environment that is clean and spacious with wide aisles and helpful signing. Existing stores are remodeled to reflect the excitement of Target's latest new store prototype. Target's first store, opened in Roseville, Minnesota in 1962 and pictured on the cover, was fully remodeled in 1988 and is now as fresh and exciting as Target's newest store which opened in Eagan, Minnesota in February 1989.

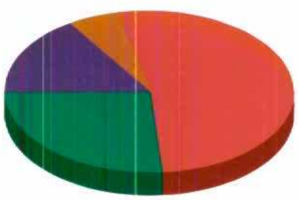
# Financial Highlights

Continuing Operations

| (Millions of Dollars, Except Per Share Data) | 1988 | 1987 | Percent Change |
|---|---|---|---|
| **For the Year:** | | | |
| Revenues | **$12,204** | $10,677 | 14% |
| Net earnings | **287** | 228 | 26 |
| Net earnings per share | **3.45** | 2.41 | 43 |
| Cash dividend paid per share | **1.02** | .92 | 11 |
| **At Year-End:** | | | |
| Shares outstanding | **77,649,000** | 85,775,000 | |
| Number of shareholders | **15,171** | 16,684 | |
| Retail square feet | **61,256,000** | 57,453,000 | |
| Number of stores | **618** | 577 | |

# The Year in Review

**Revenues**



| | |
|---|---|
| Target | 52% |
| Mervyn's | 28% |
| DHDSC | 14% |
| Lechmere | 6% |

- Total revenues topped $12 billion, increasing 14% over the previous year.
- Net earnings per share were $3.45, compared to $2.41 a year ago, an increase of 43%.
- Mervyn's performance improved dramatically and its turnaround is almost complete. Mervyn's opened 14 stores in 1988.
- Target opened 25 stores including its entry into new markets in the Pacific Northwest.
- Dayton Hudson Department Store Company had strong increases in sales and operating profit.
- The Corporation completed the purchase of 20 million shares of our outstanding common stock.
- We announced a $700 million capital investment plan for 1989.

## The Chairman's Report to Shareholders:

# We have set ourselves firmly on course to deliver superior results.

## We are committed to staying on that course.

I am delighted to report that Dayton Hudson achieved strong results in 1988–a significant recovery that puts us back on track toward our stated objective of 15% annual earnings per share growth. Earnings per share were $3.45 in 1988, up 43% over 1987. Net earnings increased 26% to $287 million, and 1988 revenues increased 14% over 1987 to $12.2 billion.

We achieved this 1988 earnings progress at the same time we were positioning the Corporation for the future. We made significant investments in new store locations, store remodels and distribution improvements. We also absorbed $35 million of expense related to the closing of our Branden's home furnishings test concept.

The business of retailing is competitive, fast-changing and exciting. Dayton Hudson's 1988 performance shows that hard work and a willingness to change do pay off. We are confident we will achieve growth as we continue our efforts to better serve the customer and to deliver wanted merchandise more efficiently. My outlook is very positive.

The review of each company's operations which follows this letter shows the quality of our performance over the past year and demonstrates the strides we have made to solidify our position as a premier retailing company.

Of particular importance in these efforts were:

- The dramatic recovery and repositioning of Mervyn's, with 1988 operating profit increasing 70% over 1987. Mervyn's made substantial progress in revamping its merchandise direction, upgrading service to customers and improving quality, price and focus.
- Target's achievement of record sales and earnings for the 14th consecutive year while continuing to invest heavily in store and distribution center expansion.
- Target's opening of 25 new stores in both existing markets and the Pacific Northwest.
- Solid performance of the Dayton Hudson Department Store Company, thanks to the superior customer service that resulted from broader implementation of Performance Plus and a refinement of its merchandising strategies.

Our plans for growth in sales and profitability in 1989 and beyond include:

- The addition of 60 new Target stores, including Target's entry into the fast-growing southeast region with the opening of 31 stores acquired last year. Given Target's previous successful expansions into several Midwest and California markets through the acquisition of other existing stores, we are very excited about the potential of this major expansion into the important southeast market.
- The opening of eight new Mervyn's stores and the remodeling of 25-30 existing stores incorporating several new merchandising concepts which have proven successful. These concepts include layout, presentation and signing.

■ Further expansion and renovation of Dayton Hudson Department Stores and broader implementation of its highly successful customer service programs.

■ Continued upgrading of technology at each of our companies to ensure better and faster customer service, superior inventory management and increased expense control.

We remain committed to a leadership role in all aspects of our business, to serving our customers better than the competition, to providing our people with excellent employment opportunities and to playing an integral role in the communities we serve through contribution of time and financial resources. We believe these efforts are essential to enhancing shareholder value.

We enter 1989 extremely excited about the future; stronger, as a result of our efforts to improve performance at each of our operating companies, and hopefully, wiser.

The more than 135,000 employees of Dayton Hudson Corporation demonstrated throughout 1988 that they could rise to the challenge. We know there are more challenges, more opportunities and more work to be done. We have set ourselves firmly on course and I believe we have the skilled people . . . in our stores, in our distribution centers and in our offices . . . to deliver superior results. We are committed to staying on that course.

Sincerely,

Kenneth A. Macke

Kenneth A. Macke
Chairman of the Board and
Chief Executive Officer

April 3, 1989


**Kenneth A. Macke, Chairman of the Board and Chief Executive Officer of Dayton Hudson Corporation, on one of his regular store visits, this time at the newly remodeled Alameda, California Mervyn's store.**

## Our People: The Key to Dayton Hudson's Success

People made the difference at Dayton Hudson in 1988. Strong leadership at all levels of the organization set the tone for excellent performance. A strong partnership among our people fostered a dedication to customers and allowed us to create and execute strategies to enhance the long-term growth of the business.

Communicating strategies and objectives was a high priority and resulted in enthusiastic commitment by our people to make new programs work. Above all, Dayton Hudson people focused on delivering value, quality, fashion, convenience and excellent customer service.

All of the people shown here played a part in this year's excellent performance. They are representative of thousands of their co-workers who are all part of the Dayton Hudson team.

Teamwork helped **Target** put customers first in 1988. Customer service begins with a clean and spacious store environment that is updated regularly to make shopping easier. Target buyers and distribution employees made sure merchandise was trend-right and in-stock. New technology such as scanning allowed store managers to put more people on the floor to assist customers with their shopping.

To Randy Reints, customer service manager of the Knollwood Target, the challenge in 1988 was reducing the time customers wait in checkout or service lines. Customers said they were pressed for time, so speeding the check-out process was one of the most important ways Target served its customers in 1988. Randy's leadership helped his store maintain Target's standard of no more than three customers in any check-out line and no longer than a three-and-a-half minute wait in any customer service line.

When customers walk into **Mervyn's** they are met by a dynamic presentation of colorful merchandise in item-focused displays called "strike points." Strike points feature the latest trends in fashion

**Target (Left to right): Jim Bermel, *Store Manager.* Joan Mullaney, *Senior Merchandise Analyst.* Randy Reints, *Customer Service Manager.* Donn Perkins, *Buyer.* Mervyn's (Left to right): Diana Edmonds, *Customer Representative.* Ellsworth Leu, *Merchandise Handler.* Kathy Gall, *Senior Unit Control Analyst, Housewares.* Pamela Kennedy, *Assistant Product Manager.***

and color from the weekly Mervyn's advertising tabloid. Teamwork and communication in the development and execution of this strategy have made strike point merchandising highly successful for Mervyn's.

Pamela Kennedy's dedication to improving the quality of private label merchandise at Mervyn's illustrates the company's commitment to its customers. Pamela, an assistant product manager, improved private label merchandise in 1988 by working with vendors to combine the features customers wanted most into the merchandise. Mervyn's garments are consistently rated tops in quality by an independent laboratory and, more importantly, by the customers.

At **Dayton Hudson Department Store Company,** the customer is supreme. Letters of appreciation from satisfied customers arrived by the thousands in 1988. The letters pointed out the superb service provided by DHDSC people. The culture at DHDSC has been infused with a commitment to place the customer above all other considerations.

Connie Elliott, a sales consultant in the women's career dressing department at DHDSC, illustrates the enthusiasm and momentum that have changed the culture of DHDSC. Connie's customers are like family to her. One of her customers is a woman from a small town 75 miles away. Last Christmas, Connie did all of the woman's Christmas shopping, including sons and daughters, in-laws, grandchildren, neighbors and friends. Connie knows all of their sizes and favorite colors. The customer never left her home. After all of the gifts had been purchased, wrapped and delivered, Connie's store manager even sent the woman a poinsettia plant and a thank you note.

**Lechmere** strives to provide its customers with the best value day-in and day-out on all merchandise categories. In 1988 excellent training and communications programs enabled Lechmere people to be their best in all aspects of customer service–whether it be selling, credit, delivery, repair or return. As a result, Lechmere associates are articulate and knowledgeable about merchandise in many areas.

Priscilla Brand is an integral part of providing that value to the customer. Priscilla is a lead customer service representative at Lechmere's Cambridge store. For her, customer service means being at her best for customers every day. Priscilla knows that doing her job well gives Lechmere a competitive edge.

In everything it does, Dayton Hudson forges a contract with the customer to deliver value–a contract that must be honored day-in and day-out. In its stores and offices, in its distribution centers and headquarters, Dayton Hudson people work together to fulfill that contract.

**Dayton Hudson Department Store Company (Left to right): Connie Elliott, *Sales Consultant, Women's Career Dressing.* Bob Mahlum, *Delivery.* Genevieve Halicki, *Credit Bill Adjuster.* Gary Nack, *Sales Consultant, Home Furnishings.***
**Lechmere (Left to right): Leon Sturk, *Store Manager.* Priscilla Brand, *Lead Customer Service Representative.* Scott Mason, *Sales Consultant.***

# Review of Operations

### 1988 Objectives

Our two most important objectives for the year were achieved.

■ We were committed to exceeding our earnings per share growth objective of 15% and we did. Our increase in earnings was primarily driven by a strong improvement in gross margin, especially in the fourth quarter. Gross margin for the year was improved with little or no overall increase in day-to-day prices.

■ A year ago, we said that a major turnaround was beginning at Mervyn's. That turnaround is now nearly complete.

### Customer Service

All of our companies emphasized innovative programs that put the customer above all other considerations. We focused on keeping our stores fully stocked with the merchandise our customers wanted most. Each of our companies made significant upgrades in store design to keep their shopping environments fresh, up-to-date and responsive to customers.

### Merchandising

We focused on strong control of inventories in all of our companies which helped reduce markdowns, especially in the second half of the year.

Advertising and promotional programs were revamped to better communicate the value we offer to customers.

We remained committed to giving our customers only the highest quality merchandise consistent with our value offering.

### Technology

New technological systems were implemented at all of our companies during 1988. One example was the system wide implementation of bar code scanning at Target, which improved customer service and inventory management across the entire chain.

Systems to get merchandise on the selling floor faster were implemented in 1988, including electronic processing of purchase orders and pre-ticketing.


**Customers said they wanted to get through Target's check-out lanes quickly. New cash register scanners and supervisors who direct customers to the shortest check-out lanes have greatly reduced the time customers wait in line at Target stores. Target is the first major discount chain to use bar code scanners at all check-out lanes.**

Target achieved record sales and operating profit in 1988 as it topped $6 billion in revenues and posted its 14th consecutive year of increased operating profit. In the last two years, Target has absorbed the largest number of new store openings in its history and gained significant market share as a result of its rapid growth.

Total revenues increased 19% over the prior year and comparable-store revenues rose 3%. Operating profit increased 6% for the year despite an intensely competitive retail environment.

Target is an upscale discounter providing quality merchandise at attractive prices. Target serves its customers with clean, spacious, visually attractive, customer-friendly stores. Customers find helpful informational signing, customer service telephones, in-stock merchandise and above all, friendly people.

During the year, Target successfully opened 25 stores including new market entries into the Pacific Northwest. These new store openings were successful from both a sales and service point of view. Target also purchased 31 stores located in important southeastern markets. These sites will be remodeled and opened as part of a 60-store expansion program in 1989.

New distribution centers opened in Sacramento and Indianapolis during the year, helping Target keep pace with its rapid growth of new stores. Target now has six distribution centers with 50% of that distribution space less than two years old.

Improved merchandise distribution and excellent trend merchandising continued to strengthen Target's position as the nation's leading upscale discounter.

A top priority in 1988 was to stay in stock. Development of a Rapid Replenishment program allowed Target to monitor sales of hot selling items in Sunday advertising circulars and automatically trigger backup shipments to restock stores by early Tuesday morning. Teamwork between distribution centers and stores resulted in new programs that delivered the right amount of stock to each store when they needed it. This reduced congestion in back rooms and improved inventory turnover.

In 1988, Target became the first major national discounter to institute electronic bar code scanning in all 341 of its stores, resulting in improved merchandise flow and customer service. Scanning also captures important information about merchandise sales and inventories which helps keep shelves stocked with the merchandise customers want most.

**Target increased its operating profit for the 14th consecutive year while absorbing the most dramatic physical growth in its history. Improved merchandise flow and new marketing programs helped increase total revenues. The groundwork was laid for a 1989 new market expansion into the southeastern United States.**

| *(Millions of Dollars)* | **1988** | 1987 | 1986 |
|---|---|---|---|
| Revenues | **$ 6,331** | $ 5,306 | $ 4,355 |
| Operating Profit* | **$ 341** | $ 323 | $ 311 |
| Stores | **341** | 317 | 246 |
| Retail Square Feet (000)** | **34,189** | 31,618 | 24,260 |

*Operating profit is LIFO earnings from operations before corporate expense, interest and income taxes.

**Total square feet less office, warehouse and vacant space.

Scanning also greatly improves service by speeding the check-out process. Target's new "Out Front" program makes it even faster, by having cashiers come out in front of their registers when they're not busy to signal customers over to their lane. Supervisors direct customers to the quickest lane and answer customers' questions.

Training cashiers is easier with scanning. Through its "Code One" program, Target has now trained store employees doing other jobs to be backup cashiers. These backups are quickly called to open additional lanes during peak times. The number one priority is to get customers through check-out lanes faster. Code One dramatically reduced customer wait times in 1988, especially during peak selling periods.

Target continued to refine its merchandise and marketing strategies in 1988. A successful network and local broadcast campaign by Target during the Christmas season featured national recording artist Aretha Franklin and Keshia Knight Pulliam who plays Rudy on the Cosby Show. National print ads during the fall season featured baseball stars Jose Canseco and Frank Viola.

In response to changing customer demand, a new store prototype was developed in 1988 to allocate more space to fast-growing merchandise categories. The new prototype, with wider aisles and stronger merchandise impact, is easier for customers to shop. Elements of this prototype were included in all new store openings and remodels in 1988, including the first Target store opened (in Roseville, Minnesota) in 1962. That store now has all of the merchandising freshness and flexibilities of Target's newest stores.

**Looking Ahead to 1989**

- Target will be in 31 states and will have 401 stores after another aggressive store expansion program in 1989. Highlighting Target's 60-store expansion will be 30 new store openings in April, in the new markets of Georgia, Florida, North Carolina and South Carolina, eastern Kentucky and eastern Tennessee. These stores give Target great strategic opportunities for the future. Combined with its recent openings in the Pacific Northwest, Target will now operate stores in markets from coast-to-coast.
- Target will implement voice and data communications via satellite between headquarters, stores and distribution centers nationally in the fall of 1989. The new satellite system will enable Target to transmit more information, improve two-way communication and realize cost efficiencies.
- Target's exciting new marketing efforts will feature national advertising and promotional events including The Jets, The Judds and sponsorship of the Will Steger Trans-Antarctica Expedition. Target's new marketing programs will reinforce its commitment to deliver good prices, rapid service and brand names, and to be in-stock on the merchandise the customers want.
- Target will address several major challenges in 1989: bringing its in-stock condition up to new standards of excellence, significantly expanding its test of a new Every Day Low pricing strategy to include the 31 new store openings in the Southeast, and improving comparable-store sales.

**Target customers expect an upscale shopping environment that includes wider aisles, self-help signing and merchandise in-stock.**


Home world
Stationery
Electronics
Sporting good
69.99
134
219

# Mervyn's

**Mervyn's made a dramatic recovery in 1988—operating profit was up 70%. Strategies implemented over the past two years have positioned the company for long-term profitability.**

| *(Millions of Dollars)* | 1988 | 1987 | 1986 |
|---|---|---|---|
| Revenues | $3,411 | $3,183 | $2,862 |
| Operating Profit | $ 256 | $ 150 | $ 160 |
| Stores | 213 | 199 | 175 |
| Retail Square Feet (000) | 16,776 | 15,727 | 13,839 |

Mervyn's made a dramatic recovery in 1988 and its turnaround is almost complete. Operating profit increased 70%, making 1988 a record year. Better inventory management and strong merchandise programs resulted in fewer markdowns and significantly improved gross margin performance. For the third straight year, expense control was excellent.

Total revenues increased 7% over 1987. Revenues from comparable-stores were up 1%. Sales strengthened throughout the year as customers responded to Mervyn's many new programs.

The company's progress on its three primary business strategies--merchandise direction, customer satisfaction and expense management–paid big rewards during 1988. More importantly, the business has been positioned to deliver strong future earnings growth.

Mervyn's refined its merchandise direction during 1988 with focused, coordinated strategies in store design, upgraded merchandise quality, improved trend execution and revamped sales promotion.

Mervyn's completed development of its remodel prototype, which will be rolled out to all stores in the coming years, making existing stores as exciting as the 14 new stores opened in 1988.

In-store presentations and graphics were more clearly defined. Today's time-starved customers now can find the newest fashion trends and colors offered in dominant, item-focused presentations.

Mervyn's tabloid changed to full-color photography and better quality paper at mid-year. Each tabloid has been coordinated with in-store merchandising to consistently deliver clear fashion trend statements to customers.

Mervyn's continued to upgrade the quality of its merchandise in 1988. Many of its private label items were tested against similar items at other department stores. Mervyn's quality was consistently equal to or better than the competition, at substantially lower prices.

Mervyn's also improved its in-stock position, lowered its inventory investment and reduced distribution expense in 1988. The number of vendors using electronic data interchange (EDI) to transmit purchase orders was increased substantially.

### Looking Ahead to 1989

- Mervyn's remodeling plan in 1989 will bring improved prototype merchandising to 25-30 additional stores. Eight new stores will open during the year as well.
- Ongoing improvement in merchandise quality and updated trends will be coordinated with further development of the new advertising and sales promotion programs.
- The rollout of EDI and continued emphasis on shortening the time from vendor to sales floor will result in better in-stocks and lower expenses.
- Mervyn's will address several major challenges in 1989: delivering financial performance that justifies increased expansion capital, improving performance in immature markets and continuing to improve merchandise presentation.

**Mervyn's item-focused merchandise displays called "strike points" are coordinated with tabloid advertising to help customers spot new trends in color and fashion.**


WE BELIEVE IN...

## Dayton Hudson Department Store Company

**Dayton Hudson Department Store Company increased operating profit 30% as a result of strong trend merchandising, effective inventory control, and above all, exceptional customer service.**

Dayton Hudson Department Store Company (DHDSC) had a great year in 1988. Above all, DHDSC's total commitment to serving the customer and excellent trend merchandising resulted in consistently strong sales during the year. Several strategic programs initiated over the past few years enabled DHDSC to post record revenues and near-record operating profit in 1988. DHDSC continues to be an exciting and profitable business with considerable growth potential.

Total and comparable-store revenues climbed 9%. Operating profit increased 30% due to strong sales and improved gross margin.

Performance Plus, a major, multi-year program aimed at improving customer service, has been highly successful in pleasing customers and increasing sales. All stores have some departments on Performance Plus, and four stores have implemented the program store-wide.

Customer service improvements at DHDSC include more full time sales consultants armed with hours of training about product features. The program emphasizes more frequent consultant contact with regular customers, consistent follow-up to assure satisfaction, greater use of DHDSC's free personalized shopping service (FYI), convenient package pickup and better home delivery service. Customers feel the difference and they are responding favorably to it.

DHDSC continues to position itself as a leader in the moderate and better fashion business. The stores are fresh and exciting, attractive and easy to shop.

The remodel of the flagship store in Minneapolis was completed in 1988 as was a major renovation of the Ann Arbor, Michigan store.

DHDSC continued to refine and refocus its merchandising strategy in 1988. DHDSC reduced the number of promotional days during the year and concentrated more on full price business. Inventory levels were maintained more effectively, helping to improve margin rates.

Sales improvement in 1988 was consistent across all merchandise categories. At DHDSC, trend merchandising means being first with dominant assortments of exciting new trends. In 1988, customers again found the hottest looks and products in DHDSC stores.

| *(Millions of Dollars)* | **1988** | 1987 | 1986 |
|---|---|---|---|
| Revenues | **$1,693** | $1,552 | $1,566 |
| Operating Profit | **$ 159** | $ 122 | $ 166 |
| Stores | **37** | 37 | 37 |
| Retail Square Feet (000) | **7,738** | 7,791 | 7,791 |

### Looking Ahead to 1989

- Performance Plus is scheduled to expand to all departments in seven additional stores, further improving DHDSC's selling productivity.
- DHDSC will continue to update its stores with expansion and renovation. New stores will be built in 1990 and 1991 to replace the existing Southdale and Rosedale stores in Minnesota. In addition, two new stores will be built in Wisconsin in 1991, and the store in Burnsville, Minnesota will be expanded and completely remodeled.
- DHDSC's challenges for 1989 include consistency of financial performance and consistent execution of superior customer service programs.

**Dayton Hudson Department Stores are attractive and exciting with an upscale look that complements the fashion-forward merchandise.**

# Lechmere

**Lechmere's operating profit was down only slightly in 1988 despite a three-year period of rapid store growth.**

Lechmere has grown from 10 stores to 27 stores in just three years, meaning that well over half of its store base is immature. During this period of rapid growth, Lechmere has been able to absorb the costs associated with expansion while maintaining a steady level of profitability.

Total revenues increased 21% in 1988 and comparable-store revenues increased 2%. Operating profit declined 4%. Increased sales of products for offices in the home, and electronics helped offset a general sluggishness in major appliance sales.

Lechmere is committed to be the best in customer service. A new sales management program has improved the training of sales associates and managers resulting in more knowledgeable and professional assistance to better meet customer needs.

Lechmere's price protection guarantee assures customers they can always get the lowest price on any item.

The store environment is constantly being updated to reflect a crisp and inviting atmosphere. New red, white and blue color schemes, augmented with extensive use of neon, provide an energizing and contemporary environment in new stores and remodels. Three new 60,000 square foot stores were added in 1988. While this prototype is smaller than existing Lechmere stores, it produces sales equal to or greater than stores that are one-third larger. Customer response to the new prototype has been extremely positive.

Lechmere is adept at spotting emerging trends. Lechmere was one of the first retailers to cater to the needs of customers setting up offices in their homes. In 1988, sales of home office equipment surpassed major appliances, which has historically been one of Lechmere's highest volume businesses.

| *(Millions of Dollars)* | **1988** | 1987 | 1986 |
|---|---|---|---|
| Revenues | **$769** | $636 | $476 |
| Operating Profit | **$ 22** | $ 23 | $ 20 |
| Stores | **27** | 24 | 17 |
| Retail Square Feet (000) | **2,553** | 2,317 | 1,782 |

### Looking Ahead to 1989

- Scanning will be implemented chainwide by midsummer. This will serve the customer by speeding up transactions and providing better information for maintaining inventories.
- Two new stores will be opened in Birmingham, Alabama, bringing the total number of Lechmere stores to 29 in 10 states.
- A new store will replace the existing Cambridge, Massachusetts store.
- Lechmere's challenges for 1989 include improving productivity and profitability.


Lechmere has friendly stores where customers can choose from a dominant assortment of merchandise. Lechmere's sales training and recruitment programs assure customers of knowledgeable and professional sales assistance.

# Dayton Hudson Corporation Financial Information

Continuing Operations

### 1988 Highlights

■ The Corporation achieved record earnings, with earnings per share up 43% over 1987.

■ Operating profit also increased to a record level, driven by excellent performance at our three largest Operating Companies.

■ Improved inventory content and controls resulted in a higher gross margin rate.

■ The purchase of 20 million shares of the Corporation's common stock was completed during the year.

■ Financial flexibility allowed the Corporation to take advantage of a key strategic opportunity through the acquisition of prime retail sites.

■ Dividends declared totaled \$1.04½ per share, an increase of 11% over \$.94½ per share a year ago.

### Contents

# Financial Review of Continuing Operations

(Millions of Dollars, Except Per-Share Data)

It is our objective to provide shareholders with a superior return on their investment through a combination of current income and stock price appreciation, while maintaining a flexible and conservative capital structure.

### Performance Objectives

- Return on equity of 18%.
- Annual EPS growth of 15%.

Achievement of financial performance objectives depends largely upon the ability to produce a superior return on investment (ROI). ROI is the most important single measure of financial performance and it is the primary financial tool used to manage our business. ROI is defined as the after-tax return on investment before borrowing costs.

ROI is an important part of the following management processes:

- *Performance Appraisal.* The incentive compensation of management is based on return on investment, as well as on growth in earnings.
- *Capital Allocation.* Capital is allocated for expansion of each operating company based primarily on actual and projected performance measured against its ROI standard.
- *Capital Project Evaluation.* All capital projects are expected to achieve ROI levels which will produce an internal rate of return of 13% over their life.

| Return on Investment | 1988 | 1987 | 1986 |
|---|---|---|---|
| Net earnings from continuing operations | $ 287 | $ 228 | $ 255 |
| Interest expense—after tax* | 119 | 75 | 56 |
| Interest equivalent in operating leases—after tax** | 24 | 26 | 17 |
| Earnings before financing costs | $ 430 | $ 329 | $ 328 |
| Working capital*** | $1,293 | $1,204 | $1,104 |
| Net property and equipment | 2,991 | 2,402 | 1,655 |
| Other non-current assets | 62 | 147 | 22 |
| Capital leases | 115 | 115 | 115 |
| Present value of operating leases | 376 | 382 | 259 |
| Total investment at beginning of year | $4,837 | $4,250 | $3,155 |
| Return on investment | 8.9% | 7.7% | 10.4% |

*Interest expense on beginning-of-year debt and capital leases.

**Assumes after-tax interest cost of approximately 6½% on beginning-of-year present value of operating leases for 1988, 7% for 1987 and 6½% for 1986.

***Current assets less non-interest bearing current liabilities.

### Financial Policies

- Maintain strong investment grade ratings on our debt.
- Maintain a debt ratio which allows access to capital markets and the flexibility to take advantage of strategic and financial opportunities.
- Limit the amount of future capital expenditure commitments to a level which could be funded by projected internally generated funds.

| Capitalization | 1988 | 1987 | 1986 |
|---|---|---|---|
| Commercial paper | $ 148 | $ 353 | $ — |
| Long-term debt* | 2,337 | 1,697 | 1,250 |
| Capital leases* | 141 | 140 | 137 |
| Present value of operating leases | 414 | 376 | 382 |
| Total debt and equivalent | 3,040 | 2,566 | 1,769 |
| Deferred items and other | 276 | 285 | 301 |
| Equity | 1,861 | 1,986 | 2,180 |
| Total capitalization | $5,177 | $4,837 | $4,250 |
| Debt ratio (total debt and equivalent as a percentage of total capitalization) | 59% | 53% | 42% |

*Including current portion.

Our long-term debt and commercial paper carry very strong ratings from the major rating agencies.

The major portion of future growth will continue to be financed with internally generated funds. The remainder will be financed with a mix of debt which is consistent with the cash flow characteristics of our capital investments.

### Capital Investment

Target continues to receive the majority of the Corporation's capital investment. Capital investment totaled $737 million in 1988 and is expected to exceed $700 million in 1989. In addition to new stores, capital is invested in maintaining stores, improving distribution and upgrading systems and technology.

| Capital Investment | 1988 | 1987 | 1986 |
|---|---|---|---|
| Capital expenditures | $ 681 | $ 839 | $ 941 |
| Present value of new operating leases | 56 | 37 | 148 |
| Total | $ 737 | $ 876 | $1,089 |

### Dividends and Common Stock Price Per Share

In support of the objective to provide shareholders with a superior return on their investment, it is our policy to make regular annual increases in dividends on common stock.

Dividends declared in 1988 totaled $1.04½ per share, an 11% increase over the $.94½ per share declared in 1987. The quarterly dividend paid in the first quarter of 1989 was increased to $.28 per share. The current annualized dividend is $1.12 per share.

At year-end 1988, the number of Dayton Hudson shareholders of record was 15,171 compared with 16,684 at year-end 1987. On April 3, 1989 there were 14,840 shareholders of record and the common stock price was $46¼.

## Analysis of Continuing Operations

(Millions of Dollars, Except Per-Share Data)

Dayton Hudson Corporation reported record earnings in 1988, reflecting excellent performance by our three largest Operating Companies.

Earnings per share from continuing operations increased 43% in 1988, rebounding from an 8% decrease in 1987 and a 9% decrease in 1986. The following table illustrates the impact of the major factors contributing to the change in earnings per share from continuing operations since 1986.

| Variance Analysis: | 1988 vs. 1987 | 1987 vs. 1986 |
|---|---|---|
| Prior year's earnings per share | $2.41 | $2.62 |
| **Change in earnings per share due to:** | | |
| Revenues | .52 | .44 |
| Gross margin rate | .36 | (.71) |
| Operating expense rate | (.16) | .30 |
| Start-up expense | .24 | (.24) |
| Interest expense, net* | (.19) | (.15) |
| Income tax rate | .18 | .23 |
| Corporate expense and other factors, net | (.12) | (.11) |
| Stock repurchase, net* | .21 | .03 |
| **Earnings per share** | $3.45 | $2.41 |

*The impact of interest incurred on debt issued to finance the stock repurchase program is included in Stock repurchase, net.

Net earnings from continuing operations increased 26% in 1988 following declines of 10% in 1987 and 9% in 1986.

In 1988 and 1987, the difference between the percentage changes in net earnings and earnings per share is due to the impact of the stock repurchase program. Management believes the percentage increase in earnings per share is the truer measure of performance. The change in net earnings is negatively impacted by interest on debt incurred to finance the repurchase, while it does not reflect the significant positive impact of the reduced number of shares.

### Revenues

The major portion of revenue growth was generated by Target, primarily due to aggressive expansion over the last several years. Mervyn's and Lechmere continue to generate strong revenue increases as well, primarily due to expansion, while the solid 1988 increase at Dayton Hudson Department Store Company (DHDSC) came from base business growth. Inflation over the past three years has been minimal and as a result, reported revenue increases closely approximate real growth.

| Revenue Growth | 1988 | | 1987 | | 1986 | |
|---|---|---|---|---|---|---|
| | All Stores | Comparable Stores | All Stores | Comparable Stores | All Stores | Comparable Stores |
| Target | 19% | 3% | 22% | 4% | 11% | 5% |
| Mervyn's | 7 | 1 | 11 | 1 | 13 | 4 |
| DHDSC | 9 | 9 | (1) | (1) | 8 | 8 |
| Lechmere | 21 | 2 | 34 | 6 | 36 | 4 |
| Total | 14% | 3% | 15% | 2% | 12% | 5% |

One measure used to evaluate the productivity of our stores is revenues per square foot.

| Revenues Per Square Foot* (Unaudited) (Dollars) | 1988 | 1987 | 1986 |
|---|---|---|---|
| Target | $192 | $193 | $188 |
| Mervyn's | 209 | 216 | 226 |
| DHDSC | 219 | 199 | 201 |
| Lechmere | 315 | 323 | 328 |

*Thirteen-month average retail square feet.

DHDSC's increase in revenues per square foot reflects strong mature store sales growth. Slight declines at Target, Mervyn's and Lechmere reflect lower productivity of their substantial new store bases.

Included in revenues is finance charge revenue of $147 million on internal credit sales of $2.6 billion in 1988, $143 million on sales of $2.4 billion in 1987, and $151 million on sales of $2.4 billion in 1986.

### Gross Margin Rate

Strong improvement in the overall gross margin rate (excluding buying and occupancy) was achieved in 1988 despite the rapid expansion of Target and Lechmere, our low-margin companies, and a retail environment that continued to be highly competitive.

■ **Target's** gross margin rate declined slightly due primarily to the continuing implementation of lower pricing.

■ **Mervyn's** gross margin rate improved substantially due to improved inventory content and controls resulting in fewer markdowns.

■ **DHDSC's** gross margin rate improved significantly due to stronger sales and improved inventory controls resulting in fewer markdowns.

■ **Lechmere's** gross margin rate remained flat relative to last year.

The 1987 overall gross margin rate was lower than 1986 due to a sales mix more heavily weighted to our low-margin companies and to substantial declines in gross margin at Mervyn's and DHDSC due primarily to higher markdowns. Target and Lechmere also reported slightly lower gross margin rates.

### Operating Expense Rate

The operating expense rate in 1988 increased slightly compared with 1987. Operating expenses include buying and occupancy costs, selling, publicity and administrative expenses, depreciation, rent and taxes other than income taxes.

■ **Target's** operating expense rate increased due primarily to the lower productivity of its substantial new-store base.

■ **Mervyn's** operating expense rate improved for the third straight year, reflecting its continued aggressive expense control effort.

■ **DHDSC's** operating expense rate increased slightly due to higher store expenses associated with the continuing implementation of its program to improve customer service.

■ **Lechmere's** increase in operating expense rate is due to the lower productivity of a relatively large new-store base and a new advertising strategy aimed at developing name recognition in its newer markets.

The improvement in the 1987 overall operating expense rate compared with 1986 reflects improved rates at all Operating Companies except DHDSC where the first phase of its new customer service program was implemented.

### Start-up Expense

Lower overall start-up expense in 1988 reflects the completion of Target's major 1987 West Coast expansion. A total of 42 new stores were opened by Dayton Hudson Operating Companies in 1988, compared to 104 new stores in 1987.

### Interest Expense

During 1988, interest costs rose primarily due to increased levels of debt required for capital expansion and improvements, store remodeling, and financing of the stock repurchase program.

| Components of Interest Expense, Net | 1988 | 1987 | 1986 |
|---|---|---|---|
| Interest on debt* | $214 | $146 | $128 |
| Interest on capital leases | 17 | 17 | 17 |
| Interest cost capitalized | (7) | (7) | (7) |
| Interest income | (6) | (4) | (20) |
| Net expense | $218 | $152 | $118 |

*Includes interest incurred on debt to finance the stock repurchase program of $39 in 1988 and $5 in 1987.

### Income Taxes

Effective tax rates for the past three years vary from the federal statutory rate as follows:

| Percent of Earnings Before Income Taxes | 1988 | 1987 | 1986 |
|---|---|---|---|
| Statutory rate | 34.0% | 39.0% | 46.0% |
| State income taxes, net of federal tax benefit | 4.7 | 4.1 | 3.9 |
| Tax credits, net* | (.5) | (.6) | (2.0) |
| Other | 1.0 | .4 | .5 |
| Effective tax rate | 39.2% | 42.9% | 48.4% |

*Net tax credits, primarily targeted job tax credits and investment tax credits, were $2 million in 1988, $2 million in 1987, and $10 million in 1986.

The benefit of lower tax rates in 1988 and 1987 resulting from the Tax Reform Act is partially offset by the loss of investment tax credits and the reduced benefit of state tax deductions.

The components of the provision for income taxes for the past three years are as follows:

| Income Tax Provision | 1988 | 1987 | 1986 |
|---|---|---|---|
| Current: | | | |
| Federal | $175 | $170 | $171 |
| State | 39 | 32 | 30 |
| | 214 | 202 | 201 |
| Deferred: | | | |
| Federal | (24) | (26) | 33 |
| State | (5) | (5) | 5 |
| | (29) | (31) | 38 |
| Total | $185 | $171 | $239 |

The deferred tax provision is comprised of the following timing differences:

| Deferred Tax Provision | 1988 | 1987 | 1986 |
|---|---|---|---|
| Depreciation expense | $ 31 | $ 40 | $36 |
| Installment sales deferred income | (29) | (38) | (1) |
| Inventory cost capitalization | (4) | (11) | — |
| Bad debt expense | (5) | (2) | — |
| Vacation pay expense | (4) | (6) | — |
| Test strategy reserve | (13) | — | — |
| Other | (5) | (14) | 3 |
| Provision for deferred taxes | $(29) | $(31) | $38 |

Tax legislation enacted in 1987 and 1986 eliminated installment sales reporting and created new timing differences in subsequent years pertaining to inventory capitalization rules, bad debt expense and limitations on vacation accruals. Most of these items have a four-year transition period.

In December 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes." The Statement, as amended, requires companies to adopt the liability method of accounting for income taxes no later than 1990. If 1988 financial statements were restated to comply with the requirements, 1988 beginning-of-year retained earnings would have increased and deferred tax liabilities would have decreased by approximately $55 million. Adoption of the Statement is planned for the beginning of the 1990 fiscal year.

### Corporate Expense and Other

Corporate expense and other for the past three years are as follows:

| Corporate Expense and Other | 1988 | 1987 | 1986 |
|---|---|---|---|
| Corporate headquarters expense | $19 | $18 | $17 |
| Other | 69 | 49 | 37 |
| Total | $88 | $67 | $54 |

The major components of other are the net results of our test strategies and charitable contributions in support of our 5% giving program. In 1988, other also includes a fourth quarter charge of $35 million related to the discontinuance of Branden's, a home furnishings test strategy. In 1987, other includes a $9 million expense related to an unsolicited takeover proposal.

### Significant Events

■ **Stock Repurchase.** In October 1987 and October 1988, the Board of Directors authorized the Corporation to purchase a total of 20 million shares of its common stock. The purchase of these shares was completed during 1988. The overall average repurchase price was $33 per share.

■ **Real Estate and Lease Acquisitions.** In 1988, Target purchased 31 stores in the Southeastern part of the country. These stores will be remodeled and opened as Target stores in 1989. In 1986, Target purchased existing store sites located primarily in California, with 50 sites opened as Target stores in 1987.

■ **Discontinued Operations.** Effective December 27, 1986, B. Dalton Bookseller was sold. For the 47 weeks then ended, B. Dalton had revenues of $515 million, earnings before income taxes of $4 million and net earnings of $2 million. The gain on the sale (less income taxes of $31 million) was $85 million. Our consolidated financial statements and related information for 1986 and prior years reflect B. Dalton as part of discontinued operations.

■ **Extraordinary Charge.** During 1986, a significant portion of our high-interest-rate debt was purchased and redeemed at a premium above par. This purchase and redemption resulted in an extraordinary charge of $32 million (net of a tax benefit of $33 million). The replacement of the debt at lower interest rates has resulted in interest expense savings.

### Business Segment Trends

As shown in the business segment comparisons on page 20, Target and Mervyn's continue to contribute the greatest portion of revenues. These two companies contributed 87% of the increase in revenue dollars over the past five years. Lechmere's revenues have had the highest compound growth rate over that period at 28%.

Total operating profit increased 26% in 1988. Target posted its 14th consecutive year of record operating profit. Mervyn's also reported record operating profit, up 70% over 1987. DHDSC's operating profit increased 30%, just short of its 1986 record.

■ **Target's** increase in operating profit was due primarily to increased sales volume and lower start-up expense offset by higher new store costs.

■ **Mervyn's** operating profit improved substantially during 1988 reflecting significant improvement in its gross margin rate and excellent expense management.

■ **DHDSC's** operating profit also improved significantly reflecting consistently strong sales performance coupled with improved gross margin rate.

■ **Lechmere's** operating profit decreased slightly reflecting a general softness in major appliance sales.

| **Business Segment Comparisons** (Millions of Dollars) | 1988 | 1987 | 1986 | 1985 | 1984* | 1983 |
|---|---|---|---|---|---|---|
| **Revenues** | | | | | | |
| Target | $ 6,331 | $ 5,306 | $ 4,355 | $ 3,931 | $ 3,550 | $ 3,118 |
| Mervyn's | 3,411 | 3,183 | 2,862 | 2,527 | 2,141 | 1,689 |
| Department stores | 1,693 | 1,552 | 1,566 | 1,448 | 1,548 | 1,484 |
| Lechmere | 769 | 636 | 476 | 349 | 280 | 227 |
| Total | $12,204 | $10,677 | $ 9,259 | $ 8,255 | $ 7,519 | $ 6,518 |
| **Operating profit** | | | | | | |
| Target | $ 341 | $ 323 | $ 311 | $ 278 | $ 236 | $ 177 |
| Mervyn's | 256 | 150 | 160 | 245 | 223 | 184 |
| Department stores | 159 | 122 | 166 | 122 | 107 | 156 |
| Lechmere | 22 | 23 | 20 | 20 | 20 | 19 |
| Total | 778 | 618 | 657 | 665 | 586 | 536 |
| **Interest expense, net** | 218 | 152 | 118 | 100 | 98 | 86 |
| **Corporate and other** | 88 | 67 | 54 | 57 | 48 | 40 |
| **Corporate and interest expense absorbed by discontinued operations** | — | — | (9) | (10) | (13) | (6) |
| **Earnings from continuing operations before income taxes and extraordinary charge** | $ 472 | $ 399 | $ 494 | $ 518 | $ 453 | $ 416 |
| **Operating profit as a percent of revenues** | | | | | | |
| Target | 5.4% | 6.1% | 7.1% | 7.1% | 6.6% | 5.7% |
| Mervyn's | 7.5 | 4.7 | 5.6 | 9.7 | 10.4 | 10.9 |
| Department stores | 9.4 | 7.9 | 10.6 | 8.4 | 6.9 | 10.5 |
| Lechmere | 2.8 | 3.6 | 4.1 | 5.7 | 7.2 | 8.3 |
| **Assets** | | | | | | |
| Target | $ 2,982 | $ 2,638 | $ 2,179 | $ 1,519 | $ 1,375 | $ 1,258 |
| Mervyn's | 2,166 | 2,114 | 1,817 | 1,615 | 1,329 | 1,064 |
| Department stores | 808 | 761 | 739 | 738 | 727 | 863 |
| Lechmere | 484 | 431 | 317 | 210 | 151 | 105 |
| Discontinued operations | — | — | — | 221 | 204 | 186 |
| Corporate and other | 83 | 132 | 230 | 115 | 14 | 119 |
| Total | $ 6,523 | $ 6,076 | $ 5,282 | $ 4,418 | $ 3,800 | $ 3,595 |
| **Depreciation** | | | | | | |
| Target | $ 146 | $ 103 | $ 76 | $ 70 | $ 66 | $ 56 |
| Mervyn's | 91 | 82 | 68 | 54 | 43 | 30 |
| Department stores | 33 | 30 | 28 | 27 | 32 | 33 |
| Lechmere | 15 | 11 | 8 | 5 | 3 | 2 |
| Corporate and other | 5 | 5 | 3 | 2 | 1 | 2 |
| Total | $ 290 | $ 231 | $ 183 | $ 158 | $ 145 | $ 123 |
| **Capital expenditures** | | | | | | |
| Target | $ 457 | $ 501 | $ 598 | $ 138 | $ 110 | $ 143 |
| Mervyn's | 154 | 207 | 243 | 177 | 165 | 138 |
| Department stores | 31 | 49 | 31 | 37 | 33 | 27 |
| Lechmere | 32 | 72 | 49 | 42 | 25 | 6 |
| Corporate and other | 7 | 10 | 20 | 9 | 3 | 7 |
| Total | $ 681 | $ 839 | $ 941 | $ 403 | $ 336 | $ 321 |

*Consisted of 53 weeks.

Department stores include Diamond's and John A. Brown through September 29, 1984.

**Quarterly Results** (Unaudited)

Double-digit increases in total revenues were achieved during each quarter of 1988. Solid increases in comparable store revenues were reported in the fourth quarter of 1988, following modest comparable store increases in the first three quarters. During 1988, the trend in quarterly earnings per share improved with each successive quarter, culminating with year-over-year improvements of $.20 and $.77, in the third and fourth quarters, respectively.

The same accounting policies are followed in preparing quarterly financial data as are followed in preparing annual data:

■ Costs directly associated with revenues, such as cost of goods sold and additional rent on leased stores, are allocated based on revenues.

■ Certain other costs not directly associated with revenues, such as real estate taxes, bonuses, professional fees, costs of opening new stores and benefit plan expenses, are allocated evenly throughout the year.

The table below summarizes our results by quarter for 1988 and 1987.

The following table shows quarterly last-in, first-out (LIFO) expense and its impact on earnings per share.

| LIFO Expense/(Credit) | 1988 | | 1987 | | 1986 | |
|---|---|---|---|---|---|---|
| Quarter | $ | Per Share* | $ | Per Share* | $ | Per Share |
| First | $12 | $.09 | $ 9 | $.05 | $ 7 | $.04 |
| Second | 14 | .10 | 11 | .06 | 7 | .03 |
| Third | 10 | .07 | 4 | .02 | 17 | .09 |
| Fourth | 8 | .06 | (2) | (.01) | 7 | .04 |
| Total year | $44 | $.32 | $22 | $.13 | $38 | $.20 |

* LIFO expense per share is computed based on average shares outstanding during each period. The sum of quarterly LIFO expense per share may not equal the total-year amount due to the impact of the stock repurchase program on average shares outstanding.

The increase in the 1988 LIFO provision is due primarily to a higher inflation rate relative to 1987 and a smaller growth in inventory levels due to fewer new store openings. The decrease in the 1987 LIFO provision was due primarily to inventory growth necessitated by expansion.

| | First Quarter | | Second Quarter | | Third Quarter | | Fourth Quarter | | Total Year | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1988 | 1987 | 1988 | 1987 | 1988 | 1987 | 1988 | 1987 | 1988 | 1987 |
| Revenues | $2,544 | $2,153 | $2,693 | $2,306 | $2,867 | $2,539 | $4,100 | $3,679 | $12,204 | $10,677 |
| Gross Profit* | $ 677 | $ 606 | $ 695 | $ 597 | $ 793 | $ 674 | $1,152 | $ 947 | $ 3,317 | $ 2,824 |
| Net Earnings | $ 31 | $ 38 | $ 28 | $ 23 | $ 45 | $ 33 | $ 183 | $ 134 | $ 287 | $ 228 |
| Net Earnings Per Share** | $ .36 | $ .39 | $ .34 | $ .24 | $ .54 | $ .34 | $ 2.31 | $ 1.54 | $ 3.45 | $ 2.41 |
| Average Common Shares Outstanding (Millions) | 85.7 | 97.4 | 84.8 | 97.4 | 83.8 | 97.2 | 79.1 | 87.1 | 83.3 | 94.8 |
| Quarterly Dividend Declared Per Share | $ .25½ | $ .23 | $ .25½ | $ .23 | $ .25½ | $ .23 | $ .28 | $ .25½ | $ 1.04½ | $ .94½ |
| Common Stock Price*** | | | | | | | | | | |
| High | $ 40¾ | $ 48½ | $ 36⅝ | $ 63 | $ 45⅞ | $ 60½ | $ 44¼ | $ 35 | $ 45⅞ | $ 63 |
| Low | 32¾ | 38¾ | 31⅝ | 41¾ | 34⅞ | 21½ | 38⅝ | 25⅛ | 31⅝ | 21½ |

* Gross profit is revenues less cost of retail sales, buying and occupancy.

** Earnings per share are computed independently for each of the quarters presented. The sum of the quarterly earnings per share does not equal the total-year amount due to the impact of the stock repurchase program on average shares outstanding.

*** Dayton Hudson Corporation's common stock is listed on the New York Stock Exchange and the Pacific Stock Exchange.

## Consolidated Results of Operations

Dayton Hudson Corporation and Subsidiaries

| (Millions of Dollars, Except Per-Share Data) | 1988 | 1987 | 1986 |
|---|---|---|---|
| **Revenues** | **$12,204** | $10,677 | $9,259 |
| **Costs and Expenses** | | | |
| Cost of retail sales, buying and occupancy | **8,887** | 7,853 | 6,705 |
| Selling, publicity and administrative | **2,038** | 1,769 | 1,538 |
| Depreciation | **290** | 231 | 183 |
| Rental expense | **93** | 97 | 73 |
| Interest expense, net | **218** | 152 | 118 |
| Taxes other than income taxes | **206** | 176 | 148 |
| | **11,732** | 10,278 | 8,765 |
| **Earnings From Continuing Operations Before Income Taxes and Extraordinary Charge** | **472** | 399 | 494 |
| **Provision for Income Taxes** | **185** | 171 | 239 |
| **Net Earnings From Continuing Operations Before Extraordinary Charge** | **287** | 228 | 255 |
| **Net Earnings From Discontinued Operations:** | | | |
| Earnings From Operations | — | — | 2 |
| Gain on Sale of B. Dalton | — | — | 85 |
| **Net Earnings Before Extraordinary Charge** | **287** | 228 | 342 |
| Extraordinary Charge From Purchase and Redemption of Debt, Net of Tax Benefit | — | — | (32) |
| **Consolidated Net Earnings** | **$ 287** | $ 228 | $ 310 |
| **Net Earnings Per Share** | | | |
| **Continuing Operations** | **$ 3.45** | $ 2.41 | $ 2.62 |
| **Discontinued Operations:** | | | |
| Earnings from Operations | — | — | .02 |
| Gain on Sale of B. Dalton | — | — | .88 |
| **Earnings Before Extraordinary Charge** | **3.45** | 2.41 | 3.52 |
| Extraordinary Charge | — | — | (.33) |
| **Consolidated** | **$ 3.45** | $ 2.41 | $ 3.19 |
| **Average Common Shares Outstanding** (Millions) | **83.3** | 94.8 | 97.3 |

These financial statements should be read in conjunction with the Analysis of Continuing Operations on pages 17-21 and the information on pages 26-28.

## Consolidated Statements of Financial Position

Dayton Hudson Corporation and Subsidiaries

| (Millions of Dollars) | January 28, 1989 | January 30, 1988 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash | $ 53 | $ 116 |
| Marketable securities | — | 59 |
| Accounts receivable (net of allowance for doubtful accounts of $35 and $29) | 1,223 | 1,074 |
| Merchandise inventories (net of accumulated LIFO provision of $154 and $110) | 1,669 | 1,623 |
| Other | 36 | 36 |
| | 2,981 | 2,908 |
| **Property and Equipment** | | |
| Land | 497 | 440 |
| Buildings and improvements | 2,392 | 2,163 |
| Fixtures and equipment | 1,322 | 1,207 |
| Construction-in-progress | 308 | 166 |
| Accumulated depreciation | (1,145) | (985) |
| | 3,374 | 2,991 |
| **Property Under Capital Leases, Net** | 112 | 115 |
| **Other** | 56 | 62 |
| | $6,523 | $6,076 |
| **Liabilities and Shareholders' Investment** | | |
| **Current Liabilities** | | |
| Commercial paper | $ 148 | $ 353 |
| Accounts payable (including outstanding drafts of $248 and $294) | 1,056 | 1,055 |
| Accrued liabilities | 566 | 439 |
| Income taxes—payable and current deferred | 138 | 121 |
| Current portion of capital lease obligations and long-term debt | 95 | 18 |
| | 2,003 | 1,986 |
| **Capital Lease Obligations** | 136 | 135 |
| **Long-Term Debt** | 2,247 | 1,684 |
| **Deferred Income Taxes and Other** | 276 | 285 |
| **Shareholders' Investment** | | |
| Common stock | 78 | 86 |
| Additional paid-in capital | 25 | 23 |
| Retained earnings | 1,758 | 1,877 |
| | 1,861 | 1,986 |
| | $6,523 | $6,076 |

These financial statements should be read in conjunction with the Analysis of Continuing Operations on pages 17-21 and the information on pages 26-28.

# Consolidated Statements of Cash Flows

Dayton Hudson Corporation and Subsidiaries

| (Millions of Dollars) | 1988 | 1987 | 1986 |
|---|---|---|---|
| **Operating Activities** | | | |
| Net earnings from continuing operations before extraordinary charge | $ 287 | $ 228 | $ 255 |
| Reconciliation to cash flow: | | | |
| Depreciation and amortization | 292 | 232 | 185 |
| Non-current deferred tax provision | 27 | 5 | 39 |
| Current deferred tax provision | (56) | (36) | (1) |
| (Increase) in accounts receivable | (149) | (21) | (2) |
| (Increase) in inventory | (46) | (311) | (162) |
| Increase in accounts payable | 1 | 213 | 185 |
| Increase/(decrease) in income taxes payable | 35 | (18) | (6) |
| Other | 146 | 18 | 43 |
| **Cash Flow Provided by Continuing Operations** | 537 | 310 | 536 |
| Cash Flow Provided by Discontinued Operations | — | — | 50 |
| | 537 | 310 | 586 |
| **Investing Activities** | | | |
| Expenditures for property | 690 | 787 | 1,016 |
| Disposals of property | (18) | (86) | (10) |
| Activities of discontinued operations, net | — | — | (155) |
| | 672 | 701 | 851 |
| **Net Financing Requirements** | 135 | 391 | 265 |
| **Financing Activities** | | | |
| (Decrease)/increase in commercial paper | (205) | 353 | — |
| Additions to long-term debt | 691 | 451 | 1,000 |
| Purchase and redemption of debt | (39) | — | (559) |
| Premium on debt purchase and redemption, net of tax | — | — | (32) |
| Principal payments on long-term debt and capital lease obligations | (17) | (19) | (10) |
| Repurchase of stock | (329) | (340) | — |
| Dividends paid | (85) | (87) | (82) |
| Other | (3) | (16) | (8) |
| | 13 | 342 | 309 |
| **Net (Decrease)/Increase in Cash and Cash Equivalents** | (122) | (49) | 44 |
| Cash and cash equivalents at beginning of year | 175 | 224 | 180 |
| Cash and cash equivalents at end of year | $ 53 | $ 175 | $ 224 |

Amounts in these statements are presented on a cash basis and therefore may differ from those shown in other sections of this annual report. For purposes of these statements, all short-term investments purchased with a maturity of three months or less are considered cash equivalents.

Investing and financing activities not reported in the Statements of Cash Flows, because they do not involve cash, include capital lease obligations incurred when leases were entered into for buildings and equipment of $2 million, $8 million and $9 million in 1988, 1987 and 1986, respectively. In addition, there were non-cash capital expenditures resulting from assumed liabilities and asset reclassifications of $43 million and $16 million in 1987 and 1986, respectively. There were no such transactions in 1988.

Interest paid (including interest capitalized) during 1988, 1987 and 1986 was $196, $141 and $122, respectively. Income tax payments of $179, $218 and $191 were made during 1988, 1987 and 1986, respectively.

The net change in commercial paper includes the repayment of $6 million of commercial paper with maturities over 90 days in 1988 and the issuance of $66 million and repayment of $60 million of commercial paper with maturities over 90 days in 1987. There were no such transactions in 1986.

These financial statements should be read in conjunction with the Analysis of Continuing Operations on pages 17-21 and the information on pages 26-28.

## Consolidated Statements of Shareholders' Investment

Dayton Hudson Corporation and Subsidiaries

| (Millions of Dollars) | Total | Common Stock | Additional Paid-In Capital | Retained Earnings |
|---|---|---|---|---|
| **Balance February 1, 1986** | $1,948 | $ 97 | $13 | $1,838 |
| Consolidated net earnings | 310 | | | 310 |
| Dividends declared | (84) | | | (84) |
| Stock option activity | 6 | | 6 | |
| **Balance January 31, 1987** | 2,180 | 97 | 19 | 2,064 |
| Consolidated net earnings | 228 | | | 228 |
| Dividends declared | (87) | | | (87) |
| Stock option activity | 5 | 1 | 4 | |
| Stock repurchase | (340) | (12) | | (328) |
| **Balance January 30, 1988** | 1,986 | 86 | 23 | 1,877 |
| Consolidated net earnings | 287 | | | 287 |
| Dividends declared | (85) | | | (85) |
| Stock option activity | 2 | | 2 | |
| Stock repurchase | (329) | (8) | | (321) |
| **Balance January 28, 1989** | $1,861 | $ 78 | $25 | $1,758 |

**Preferred Stock**

Authorized 5,000,000 shares, voting, $.01 par value; no shares outstanding at January 28, 1989 and January 30, 1988.

**Common Stock**

Authorized 500,000,000 shares $1 par value; 77,648,989 shares issued and outstanding at January 28, 1989; 85,775,189 shares issued and outstanding at January 30, 1988.

**Junior Preferred Stock Rights**

In September 1986, a distribution of preferred share purchase rights was declared. Terms of the plan provide for a distribution of one preferred share purchase right on each outstanding share of Dayton Hudson common stock. Each right will entitle shareholders to buy one-hundredth of a share of a new series of junior participating preferred stock at an exercise price of $150, subject to adjustment. The rights will be exercisable only if a person or group acquires ownership of 20% or more of Dayton Hudson common stock or announces a tender offer to acquire 30% or more of the common stock.

These financial statements should be read in conjunction with the Analysis of Continuing Operations on pages 17-21 and the information on pages 26-28.

## Summary of Accounting Policies

*Consolidation.* The financial statements include the accounts of Dayton Hudson Corporation and subsidiaries after elimination of material intercompany balances and transactions. All subsidiaries are wholly owned.

*Marketable Securities.* Short-term investments are recorded at cost, which approximates market.

*Sales and Accounts Receivable.* All customer receivables are classified as current assets, including some which are due after one year. This is consistent practice within the retail industry. Accounts receivable generally are written off when any portion of the balance is 12 months past due, or when the required payments have not been received for six consecutive months. The allowance for doubtful accounts receivable is based on past bad debt experience and on the ages of the various accounts.

In 1988 and 1987, for tax purposes, a bad debt is recognized when the account is written off. In prior years the reserve method was used to determine bad debt expense.

For financial reporting, the gross profit on retail installment sales is recognized when the sales are recorded. For income tax purposes, the installment method of reporting profit on these sales was used through 1986.

*Inventories.* Inventories and the related cost of sales are accounted for by the retail inventory method using the last-in, first-out (LIFO) basis. Under this method, the cost of goods sold as reported in the financial statements reflects current cost, thereby minimizing the effect of rising prices associated with inflation. In 1988 and 1987, certain additional costs are included in inventory for income tax purposes.

*Property and Equipment.* Property and equipment is recorded at cost less accumulated depreciation. For financial reporting, depreciation on property is computed using the straight-line method over estimated useful lives. Accelerated depreciation methods generally are used for tax purposes.

*Investment Tax Credit.* The investment tax credit reduced income taxes in the year the related property was put into use.

*Per-Share Data.* To compute net earnings per share, net earnings are divided by the weighted average number of common shares outstanding during the respective periods. Performance shares and the exercise of stock options would not materially dilute earnings per share.

*Statements of Cash Flows.* Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows," was adopted in 1987 and the previously reported statement of changes in financial position for 1986 was restated.

*Fiscal Year.* The fiscal year ends on the Saturday nearest January 31. Unless otherwise stated, references to years in this report relate to fiscal years rather than to calendar years.

## Debt and Leases

(Millions of Dollars)

### Lines of Credit

At January 28, 1989, $148 million in commercial paper was outstanding at a weighted average interest rate of 9.1%. During the year, the average amount of commercial paper and notes payable outstanding was $339 million, at a weighted average interest rate of 7.7%.

Unsecured lines of credit of $69 million were maintained with nine banks during 1988. Borrowings under these lines were at the prime interest rate or at other rates agreed upon at the time of the borrowings. Compensating balances were not required under any of the agreements.

At year end, additional credit was also available in the form of an annually renewable, three-year revolving credit agreement for $185 million with nine lending institutions; a five-year revolving credit agreement for $125 million with six lending institutions; and two three-year revolving credit agreements for $100 million each, with two separate lending institutions. Subsequent to year end, we terminated the two $100 million facilities.

A fee is paid for the availability of the revolving credit agreements and an option is available to borrow at the prime rate or other negotiated rates. In each of the years 1988 and 1987, fees of $1 million were paid under these agreements. Any balance outstanding under the three-year revolving credit agreement at the end of a three-year period may be converted at our option into a four-year term loan. There were no balances outstanding at January 28, 1989.

Between September 15 and December 15, 1988, we maintained additional credit facilities of $78 million to meet seasonal working capital needs.

### Long-Term Debt

During 1988, the following long-term debt was issued:

- $100 million of 9⅝% debentures due 2008
- $105 million of 9.11% notes due 1995
- $100 million of 9⅝% notes due 1993
- $100 million of 9¾% notes due 1998
- $100 million of 9.38% notes due 1992
- $186 million of 8.4% to 9.95% notes due 1990 to 1998

The additional debt was used for capital expansion and improvements, store remodeling and financing of the stock repurchase program.

At year-end 1988 and 1987, long-term debt due beyond one year was:

| Long-Term Debt | Jan. 28, 1989 | Jan. 30, 1988 |
|---|---|---|
| 8.4% to 9.95% Unsecured Notes and Debentures due 1990 to 2008 | $ 691 | $ — |
| 7½% to 14¾% Unsecured Notes and Sinking Fund Debentures due 1990 to 2017 | 1,486 | 1,616 |
| 7¾% to 13¼% Other Unsecured Notes due 1990 to 2014 | 38 | 38 |
| 5.6% to 12% Notes and Contracts for purchase of real estate due 1990 to 2010 | 32 | 30 |
| Total | $2,247 | $1,684 |

The sinking fund and principal payments on long-term debt over the next five years will be $90 million in 1989, $67 million in 1990, $247 million in 1991, $181 million in 1992 and $246 million in 1993.

*Subsequent Debt Issues.* Subsequent to year end, $36 million of 9.85% to 9.95% notes due 1994 to 1996 were issued.

*Covenants and Collateral.* Certain revolving credit agreements contain provisions regarding prescribed levels of tangible net worth.

As a condition of borrowing under mortgage notes and contracts, related land, buildings and equipment have been pledged as collateral. At year end, approximately $45 million of property and equipment served as collateral for these loans.

### Leases

The detail of leased property and equipment capitalized in the Statements of Financial Position is:

| Property Under Capital Leases | Jan. 28, 1989 | Jan. 30, 1988 |
|---|---|---|
| Land and buildings | $174 | $169 |
| Equipment | 13 | 13 |
| Accumulated depreciation | (75) | (67) |
| Net | $112 | $115 |

If the minimum lease payments for all operating leases with initial terms of over one year were capitalized, the present value of these payments would be approximately $414 million at year-end 1988 and $376 million at year-end 1987. These present values were calculated using an average interest rate for each lease based on the year of inception. The weighted average interest rate used to calculate the 1988 and 1987 present value was 11%.

Many of the longer-term leases include options to renew, with renewal terms varying from five to thirty years. Certain leases also include options to purchase the property.

Rent expense includes percentage rents which are based on a percentage of sales over stated levels.

| Composition of Rental Expense | 1988 | 1987 | 1986 |
|---|---|---|---|
| Minimum rents on long-term operating leases | $70 | $71 | $52 |
| Short-term rents | 11 | 14 | 9 |
| Percentage rents | 16 | 16 | 15 |
| Sublease income | (2) | (2) | (2) |
| Executory costs | (2) | (2) | (1) |
| Net expense | $93 | $97 | $73 |

Future minimum lease payments required under noncancellable lease agreements existing at the end of 1988 are:

| Future Minimum Lease Payments | Operating Leases | Capital Leases |
|---|---|---|
| 1989 | $ 65 | $ 21 |
| 1990 | 63 | 21 |
| 1991 | 60 | 21 |
| 1992 | 59 | 20 |
| 1993 | 57 | 19 |
| After 1993 | 521 | 230 |
| Total future minimum lease payments* | $825 | 332 |
| Less: Interest | | 182 |
| Executory costs | | 9 |
| Capitalized lease obligations, including current portion of $5 | | $141 |

* Future minimum lease payments have not been reduced by minimum sublease income due in the future under noncancellable subleases ($6 million for operating leases, $10 million for capital leases).

### Commitments and Contingencies

Commitments for the purchase of real estate, construction of new facilities and remodeling amounted to approximately $129 million at January 28, 1989. Additional commitments for equipment purchases totalled $50 million.

The contingent liability for mortgage debt on certain office properties sold in 1976 and certain shopping centers sold in 1978 was approximately $31 million at January 28, 1989. The purchasers have agreed to indemnify the Corporation for any costs incurred in relation to the mortgages.

Regular contact with the general public, other businesses and governmental entities subjects the Corporation to claims and litigation arising out of the ordinary course of business. Considering the insurance coverage in place for a portion of the claims and litigation, and noting that the ultimate consequences cannot be accurately predicted, management and legal counsel believe that presently identified claims and litigation will not have a material adverse effect on operations or financial condition.

## Retirement and Stock Purchase Plans

(Millions of Dollars)

### Pension Plans

At the end of 1988, three defined benefit pension plans were in place which cover all employees who meet certain requirements of age, length of service and hours worked per year. The benefits provided are based upon years of service and the employee's compensation during the last five years of employment.

Contributions to the pension plans, which are made solely by the Corporation, are determined by our outside actuarial firm. To compute net pension cost, our actuarial firm estimates the total benefits which will ultimately be paid to eligible employees and then allocates these costs to service periods.

The period over which unrecognized pension costs and credits are amortized, including prior service costs and actuarial gains and losses, is based on the remaining service period for those employees expected to receive pension benefits.

| Components of Net Pension Credit | 1988 | 1987 | 1986 |
|---|---|---|---|
| Service cost—benefits earned during the period | $ 10 | $ 11 | $ 9 |
| Interest cost on projected benefit obligation | 20 | 19 | 18 |
| Return on assets—actual | (36) | (23) | (39) |
| —deferred | 11 | (1) | 17 |
| Amortization of transitional asset | (8) | (8) | (8) |
| Net pension (credit) | $ (3) | $ (2) | $ (3) |

| Funded Status | December 31, 1988 | 1987 |
|---|---|---|
| Actuarial present value of: | | |
| Vested benefit obligations | $193 | $186 |
| Accumulated benefit obligation | $202 | $196 |
| Projected benefit obligation | $241 | $223 |
| Fair market value of plan assets * | 302 | 281 |
| Plan assets in excess of projected benefit obligation | 61 | 58 |
| Unrecognized prior service cost | 6 | 1 |
| Unrecognized net actuarial gain | (31) | (22) |
| Unrecognized transitional asset | (23) | (31) |
| Prepaid pension asset | $ 13 | $ 6 |

* Plan assets consist primarily of equity securities and fixed income securities.

| Actuarial Assumptions | 1988 | December 31, 1987 | 1986 |
|---|---|---|---|
| Discount rate | 9.0% | 9.0% | 8.5% |
| Expected long-term rate of return on plan assets | 9.5 | 9.5 | 9.5 |
| Average assumed rate of compensation increase | 6.9 | 6.9 | 6.9 |

### Postretirement Health Care Benefits

In addition to providing pension and other supplemental benefits, certain health care benefits are provided for retired employees. Employees become eligible for these benefits if they meet minimum age and service requirements, are eligible for retirement benefits and agree to contribute a portion of the cost. The Corporation has the right to modify these benefits. The cost of providing these retiree health care benefits is recognized as expense when claims are paid. In each of the years 1988, 1987 and 1986, these costs amounted to approximately $2 million.

The Financial Accounting Standards Board has recently issued a proposed Statement of Financial Accounting Standards entitled "Employers' Accounting for Postretirement Benefits Other Than Pensions." The proposal would require employers to reflect in their financial statements the estimated cost of postretirement benefits over the period in which they are earned by employees. If issued in final form, this Statement would become effective in 1992 under the current timetable. The estimated impact of this proposed Statement is not expected to be material to our 1992 financial statements.

### Stock Options and Performance Shares

The Corporation has two stock option plans for key employees. Grants have included stock options, performance shares or both. The options have included Incentive Stock Options, Non-Qualified Stock Options or a combination of both. Twelve months after the grant date, 25% of any options granted become exercisable with another 25% after each succeeding 12 months. The options are cumulatively exercisable and expire no later than 10 years after the date of the grant. The performance shares pay cash and stock if certain selected performance goals are met at the end of a four-year period.

Compensation expense on performance shares is recorded based on current market price of the Corporation's common stock and the extent to which the performance goals are being met. Expense of $2 million, $1 million and $1 million was recorded in 1988, 1987 and 1986, respectively. When employees exercise options, the total option price is credited to Common Stock and Additional Paid-in Capital, and no expense is incurred.

The number of shares of unissued common stock reserved for future grants under all the plans was 4,239,700 at the end of 1988 and 4,373,123 at the end of 1987.

**Options and Performance Shares Outstanding**

| | Options | | | |
|---|---|---|---|---|
| | Number of Shares | Price Per Share | Shares Exercisable | Performance Shares |
| 1986 | | | | |
| Beginning of year | 1,358,149 | $ 7.13 - $39.94 | 698,955 | 100,714 |
| Granted | 121,361 | 53.19 | | |
| Cancelled | (53,333) | 17.44 - 53.19 | | |
| Exercised | (167,492) | 7.13 - 39.94 | | |
| 1987 | | | | |
| Beginning of year | 1,258,685 | 8.70 - 53.19 | 767,640 | 85,411 |
| Granted | 243,535 | 30.25 - 53.25 | | |
| Cancelled | (91,994) | 33.88 - 53.19 | | |
| Exercised | (216,077) | 8.70 - 53.19 | | |
| 1988 | | | | |
| Beginning of year | 1,194,149 | 9.31 - 53.25 | 713,808 | 116,272 |
| Granted | 166,470 | 35.19 - 40.13 | | |
| Cancelled | (75,248) | 33.88 - 53.19 | | |
| Exercised | (108,038) | 9.31 - 39.94 | | |
| End of year | 1,177,333 | $ 9.97-$53.25 | 740,593 | 138,868 |

## Report of Independent Auditors

### Report of Ernst & Whinney, Independent Auditors

Board of Directors and Shareholders
Dayton Hudson Corporation
Minneapolis, Minnesota

We have audited the accompanying consolidated statements of financial position of Dayton Hudson Corporation and subsidiaries as of January 28, 1989 and January 30, 1988, and the related consolidated results of operations, cash flows and shareholders' investment for each of the three years in the period ended January 28, 1989. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dayton Hudson Corporation and subsidiaries at January 28, 1989 and January 30, 1988, and the consolidated results of their operations and cash flows for each of the three years in the period ended January 28, 1989, in conformity with generally accepted accounting principles.

Ernst + Whinney

Minneapolis, Minnesota
March 17, 1989

## Report of Management

### Responsibility for Financial Statements and Accounting Controls

The financial statements and other information presented in this report have been prepared in accordance with generally accepted accounting principles. Management is responsible for the consistency, integrity and presentation of the information in the Annual Report, which necessarily includes some amounts based upon our judgments and best estimates.

To discharge this responsibility, we maintain comprehensive systems of internal controls designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with established procedures. The concept of reasonable assurance is based upon a recognition that the cost of the controls should not exceed the benefit derived. After judging the cost and benefit factors, we believe our systems of internal controls provide this reasonable assurance.

The Audit Committee of the Board of Directors, consisting of five outside directors, recommends independent auditors for appointment by the Board, and reviews their proposed services and their reports. The Committee also reviews the internal audit plan and their audit reports. Our independent auditors, Ernst & Whinney, our internal auditors and our Corporate Controller have full and free access to the Audit Committee, and meet with it periodically, with and without the presence of management. The results of the auditors' examinations and their opinions on the adequacy of our internal controls and the quality of our financial reporting are regularly reviewed by the Committee.

Our financial statements have been audited by Ernst & Whinney, whose report appears on this page. Their report expresses an opinion as to the fair presentation, in all material respects, of the financial statements and is based on an independent audit made in accordance with generally accepted auditing standards.

Kenneth A. Macke
Chairman of the Board and
Chief Executive Officer

Bruce G. Allbright
President

Willard C. Shull, III
Senior Vice President
Finance

Ralph W. Salo
Senior Vice President
Control

# Financial Comparisons

Dayton Hudson Corporation and Subsidiaries

| (Millions of Dollars Except Per-Share Data) | 1988 | 1987 | 1986 | 1985 | 1984(a) | 1983 | 1982 | 1981 | 1980 | 1979 | 1978(a) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenues** | **$12,204** | 10,677 | 9,259 | 8,255 | 7,519 | 6,518 | 5,286 | 4,624 | 3,778 | 3,175 | 2,788 |
| Cost of retail sales, buying and occupancy | **$ 8,887** | 7,853 | 6,705 | 5,908 | 5,392 | 4,642 | 3,722 | 3,278 | 2,679 | 2,218 | 1,944 |
| Selling, publicity and administrative | **$ 2,038** | 1,769 | 1,538 | 1,366 | 1,234 | 1,080 | 902 | 826 | 690 | 590 | 509 |
| Depreciation | **$ 290** | 231 | 183 | 158 | 145 | 123 | 99 | 85 | 62 | 47 | 38 |
| Interest expense, net | **$ 218** | 152 | 118 | 100 | 98 | 86 | 65 | 47 | 14 | 5 | 14 |
| **Earnings From Continuing Operations Before Income Taxes and Extraordinary Charge** | **$ 472** | 399 | 494 | 518 | 453 | 416 | 358 | 261 | 230 | 223 | 184 |
| **Income Taxes** | **$ 185** | 171 | 239 | 237 | 208 | 189 | 165 | 116 | 103 | 107 | 95 |
| **Net Earnings** | | | | | | | | | | | |
| Continuing | **$ 287** | 228 | 255 | 281 | 245 | 227 | 193 | 145 | 127 | 116 | 89 |
| Discontinued (b) | **$ —** | — | 87(c) | 3 | 14 | 19 | 14 | 28 | 20 | 76(d) | 176(d) |
| Extraordinary charge | **$ —** | — | (32) | — | — | — | — | — | — | — | — |
| Consolidated | **$ 287** | 228 | 310 | 284 | 259 | 246 | 207 | 173 | 147 | 192 | 265 |
| **Per Common Share** | | | | | | | | | | | |
| Net earnings | | | | | | | | | | | |
| Continuing | **$ 3.45** | 2.41 | 2.62 | 2.89 | 2.54 | 2.35 | 2.00 | 1.51 | 1.33 | 1.23 | .93 |
| Discontinued (b) | **$ —** | — | .90(c) | .03 | .14 | .19 | .15 | .30 | .21 | .80(d) | 1.87(d) |
| Extraordinary charge | **$ —** | — | (.33) | — | — | — | — | — | — | — | — |
| Consolidated | **$ 3.45** | 2.41 | 3.19 | 2.92 | 2.68 | 2.54 | 2.15 | 1.81 | 1.54 | 2.03 | 2.80 |
| Cash dividend declared | **$ 1.04½** | .94½ | .86 | .78½ | .69½ | .62½ | .57½ | .52½ | .47½ | .42½ | .37½ |
| Shareholders' investment | **$ 23.97** | 23.15 | 22.38 | 20.04 | 17.90 | 15.91 | 13.98 | 12.41 | 11.14 | 10.09 | 8.50 |
| **Return on Beginning Equity (Shareholders' Investment)** | | | | | | | | | | | |
| Continuing | **14.5%** | 10.5 | 13.1 | 16.2 | 15.9 | 16.8 | 16.1 | 13.6 | 13.2 | 14.4 | 15.3 |
| Consolidated | **14.5%** | 10.5 | 15.9 | 16.3 | 16.8 | 18.2 | 17.3 | 16.3 | 15.2 | 23.8 | 45.7 |
| **Capital Expenditures** | **$ 681** | 839 | 941 | 403 | 336 | 321 | 268 | 238 | 247 | 202 | 148 |
| **Consolidated Year-End Financial Position** | | | | | | | | | | | |
| Working capital | **$ 978** | 922 | 1,193 | 1,130 | 973 | 869 | 718 | 509 | 381 | 439 | 428 |
| Property and equipment, net | **$ 3,374** | 2,991 | 2,402 | 1,655 | 1,419 | 1,307 | 1,139 | 978 | 827 | 596 | 451 |
| Property under capital leases, net | **$ 112** | 115 | 115 | 115 | 115 | 116 | 98 | 94 | 100 | 67 | 71 |
| Total assets | **$ 6,523** | 6,076 | 5,282 | 4,418 | 3,800 | 3,595 | 2,985 | 2,555 | 2,155 | 1,793 | 1,638 |
| Long-term capital lease obligations | **$ 136** | 135 | 132 | 128 | 125 | 124 | 102 | 96 | 103 | 73 | 77 |
| Long-term debt | **$ 2,247** | 1,684 | 1,245 | 794 | 625 | 627 | 529 | 332 | 214 | 118 | 94 |
| Shareholders' investment | **$ 1,861** | 1,986 | 2,180 | 1,948 | 1,737 | 1,540 | 1,349 | 1,193 | 1,066 | 963 | 808 |
| **Average Common Shares Outstanding (Millions)** | **83.3** | 94.8 | 97.3 | 97.1 | 96.9 | 96.6 | 96.2 | 95.8 | 95.2 | 94.8 | 94.4 |

The Financial Comparisons should be read in conjunction with the Financial Statements.

Per-share amounts and shares outstanding reflect two-for-one common stock splits effective July 1983 and November 1981.

(a) Consisted of 53 weeks.

(b) Discontinued operations include discontinued real estate for 1978-1981 and B. Dalton Bookseller for 1978-1986.

(c) Includes the gain on sale of B. Dalton Bookseller.

(d) Includes gains on sale of real estate.

## Directors and Management

### Directors

Bruce G. Allbright
President

Rand V. Araskog
Chairman and Chief Executive Officer, ITT Corporation (diversified multinational company) (1)(3)(5)

Robert A. Burnett
Chairman, Meredith Corporation (media company engaged in printing, publishing, broadcasting and real estate) (1)(2)(3)

Livio D. DeSimone
Executive Vice President, 3M Company (diversified manufacturer) (1)(2)(4)

Roger L. Hale
President and Chief Executive Officer, Tennant Company (industrial equipment manufacturer) (1)(3)(5)

Donald J. Hall
Chairman, Hallmark Cards, Inc. (greeting card manufacturer) (1)(2)(3)

Betty Ruth Hollander
Chairman and Chief Executive Officer, The Omega Group, Inc. (manufacturer of scientific measurement and control devices and systems, technical publishing, and industrial and commercial real estate development) (1)(4)(5)

David T. Kearns
Chairman and Chief Executive Officer, Xerox Corporation (business products and systems, and financial service business) (1)(3)(5)

Kenneth A. Macke
Chairman and
Chief Executive Officer (1)

Bruce K. MacLaury
President, The Brookings Institution (research and education organization) (1)(3)(5)

David T. McLaughlin
President, The Aspen Institute (institute for discussion of contemporary issues) (1)(4)(5)

Mary Patterson McPherson
President, Bryn Mawr College (institute for higher learning) (1)(2)(4)

John A. Rollwagen
Chairman and Chief Executive Officer, Cray Research, Inc. (manufacturer of super computers) (1)(2)(4)

(1) Executive Committee
(2) Audit Committee
(3) Compensation Committee
(4) Corporate Responsibility Committee
(5) Finance Committee

### Officers

Kenneth A. Macke*
Chairman and
Chief Executive Officer

Bruce G. Allbright*
President

James T. Hale*
Senior Vice President,
General Counsel and Secretary

Ralph W. Salo*
Senior Vice President

Willard C. Shull, III*
Senior Vice President

Edwin H. Wingate*
Senior Vice President

Ann H. Barkelew*
Vice President

Larry E. Carlson
Vice President

Karol D. Emmerich*
Vice President and Treasurer

L. Fred Hamacher
Vice President

William E. Harder
Vice President and
Assistant Secretary

Peter C. Hutchinson*
Vice President

James R. Eckmann
Assistant Treasurer

William P. Hise
Assistant Secretary

### Operating Company Management

**Target**
Robert J. Ulrich*
Chairman and
Chief Executive Officer

**Mervyn's**
Walter T. Rossi*
Chairman and
Chief Executive Officer

Joseph C. Vesce
President

**Dayton Hudson Department Store Company**
Stephen E. Watson*
Chairman and
Chief Executive Officer

**Lechmere**
C. George Scala*
Chairman and
Chief Executive Officer

J. Kent Flummerfelt
President

*Executive Officers

# Stores and Locations
(as of 1/28/89)

| **Target** | *Retail Sq. Ft. in thousands* | *No. of Stores* |
|---|---|---|
| Arizona | 1,244 | 12 |
| Arkansas | 289 | 3 |
| California | 9,960 | 96 |
| Colorado | 1,865 | 18 |
| Illinois | 407 | 5 |
| Indiana | 2,583 | 31 |
| Iowa | 1,320 | 16 |
| Kansas | 200 | 2 |
| Kentucky | 427 | 5 |
| Louisiana | 202 | 2 |
| Michigan | 1,050 | 10 |
| Minnesota | 2,421 | 21 |
| Missouri | 1,044 | 10 |
| Montana | 182 | 2 |
| Nebraska | 406 | 4 |
| Nevada | 501 | 5 |
| New Mexico | 210 | 2 |
| North Dakota | 386 | 4 |
| Ohio | 79 | 1 |
| Oklahoma | 783 | 8 |
| Oregon | 315 | 3 |
| South Dakota | 201 | 2 |
| Tennessee | 886 | 9 |
| Texas | 5,114 | 50 |
| Washington | 815 | 8 |
| Wisconsin | 1,117 | 10 |
| Wyoming | 182 | 2 |
| | 34,189 | 341 |

| *Major Markets* | |
|---|---|
| Los Angeles/ Orange County | 41 |
| Minneapolis/St. Paul | 19 |
| Dallas/Ft. Worth | 15 |
| Houston | 15 |
| San Francisco Bay Area | 13 |
| Denver | 12 |
| San Diego County | 12 |

| **Mervyn's** | *Retail Sq. Ft. in thousands* | *No. of Stores* |
|---|---|---|
| Arizona | 907 | 11 |
| California | 7,526 | 98 |
| Colorado | 701 | 9 |
| Florida | 76 | 1 |
| Georgia | 476 | 6 |
| Louisiana | 538 | 7 |
| Michigan | 838 | 11 |
| Nevada | 423 | 6 |
| New Mexico | 181 | 2 |
| Oklahoma | 270 | 3 |
| Oregon | 505 | 6 |
| Texas | 2,950 | 37 |
| Utah | 531 | 6 |
| Washington | 854 | 10 |
| | 16,776 | 213 |

| *Major Markets* | |
|---|---|
| San Francisco Bay Area | 26 |
| Los Angeles/ Orange County | 22 |
| Dallas/Ft. Worth | 12 |
| San Diego County | 10 |
| Houston | 9 |
| Phoenix | 7 |
| Detroit | 6 |

| **DHDSC*** | *Retail Sq. Ft. in thousands* | *No. of Stores* |
|---|---|---|
| **Hudson's** | | |
| Indiana | 246 | 2 |
| Michigan | 4,137 | 17 |
| Ohio | 187 | 1 |
| **Dayton's** | | |
| Minnesota | 2,666 | 12 |
| North Dakota | 299 | 3 |
| South Dakota | 102 | 1 |
| Wisconsin | 101 | 1 |
| | 7,738 | 37 |

| *Major Markets* | |
|---|---|
| Minneapolis/St. Paul | 10 |
| Detroit | 8 |

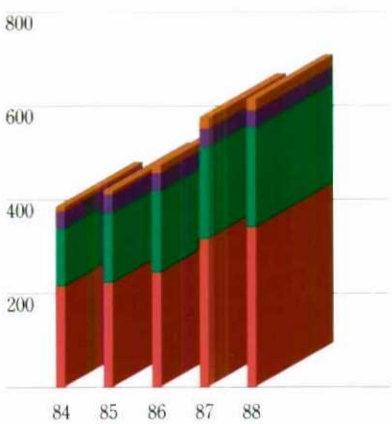
*Dayton Hudson Department Store Company

| **Lechmere** | *Retail Sq. Ft. in thousands* | *No. of Stores* |
|---|---|---|
| Connecticut | 77 | 1 |
| Florida | 136 | 2 |
| Georgia | 348 | 4 |
| Massachusetts | 1,036 | 9 |
| North Carolina | 135 | 2 |
| New Hampshire | 325 | 3 |
| New York | 349 | 4 |
| Rhode Island | 89 | 1 |
| South Carolina | 58 | 1 |
| | 2,553 | 27 |

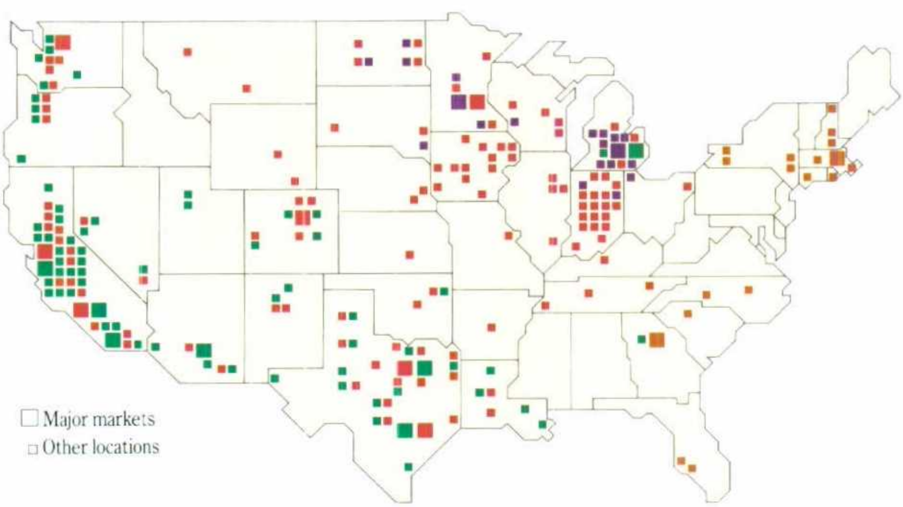
| *Major Markets* | |
|---|---|
| Boston | 6 |
| Atlanta | 4 |

| | |
|---|---|
| **Total All Stores** | **618** |
| **Total Retail Square Feet** | **61,256** |

**Number of Stores**




**Locations**



## Corporate Information

### Corporate Offices

777 Nicollet Mall, Minneapolis
Minnesota 55402
Telephone: (612) 370-6948

### Annual Meeting

The Annual Meeting of Shareholders is scheduled for 9:30 a.m. Wednesday, May 24, 1989, at The Children's Theatre, Minneapolis Institute of Arts, 2400 Third Avenue South, Minneapolis, Minnesota. Shareholders unable to attend can listen to the proceedings live between 9:30 and 10:30 a.m., CDT, by dialing (900) 590-7676. A tape of the meeting also will run every hour on the hour beginning at 1:00 p.m., CDT. The cost to call is $.45 for the first minute and $.35 for each additional minute. Callers who are not AT&T subscribers must dial the AT&T access code (10288) before dialing the 900 number.

### Community Involvement

In keeping with its commitment to corporate responsibility, Dayton Hudson annually contributes an amount equal to 5% of its normalized federally taxable income to support its communities. In 1988, we contributed more than $17 million in the communities where we do business. Giving programs are focused in two areas: social action and the arts. For a complete report on 1988 contributions and programs, write to Vice President, External Affairs at the Dayton Hudson corporate offices.

### 10-K Report

A copy of the Form 10-K annual report filed with the Securities and Exchange Commission for Dayton Hudson's fiscal year ended January 28, 1989, is available at no charge to shareholders. Write to Director, Investor Relations at the Dayton Hudson corporate offices.

### Dividend Reinvestment Plan

The dividend reinvestment plan is a convenient way for Dayton Hudson shareholders to acquire additional shares of the Corporation's common stock through automatic dividend reinvestment and voluntary cash purchase. All holders of Dayton Hudson common stock may participate. For more information, write to Morgan Shareholder Services Trust Company, P.O. Box 3506, Church Street Station, New York, New York 10008-3506.

### Transfer Agent, Registrar and Dividend Disbursing Agent

Morgan Shareholder Services Trust Company

### Trustee

First Trust National Association

### Stock Exchange Listings

New York Stock Exchange
Pacific Stock Exchange
(Trading Symbol DH)

### Shareholder Assistance

For assistance regarding individual stock records and transactions, write to Shareholder Relations at the Dayton Hudson corporate offices, or telephone the special shareholder information hotline, (800) 338-8053. You may also contact Morgan Shareholder Services Trust Company, P.O. Box 3981, Church Street Station, New York, New York 10008-3981. Information Center telephone: (212) 587-6515.

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